

TOWN OF FRYE ISLAND
FINANCIAL REPORT

DECEMBER 31, 1998

TOWN OF FRYE ISLAND
DECEMBER 31, 1998

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INDEPENDENT AUDITORS' REPORT

Board of Selectmen and Town Manager
Town of Frye Island
Frye Island, Maine

We have audited the general purpose financial statements of Town of Frye Island for the six months ended December 31, 1998, as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As more fully described in Note 1 to the financial statements, the general purpose financial statements referred to above, do not include a statement of general fixed assets account group required by generally accepted accounting principles. The amount that should be recorded in the general fixed assets account group is not known.

In our opinion, except for the effects on the financial statements of the matter described in the preceding paragraph, the general purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Town of Frye Island as of December 31, 1998, and the results of its operations for the six months then ended, in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The exhibits and schedule listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Berry, Fowles & Co.

Certified Public Accountants
March 29, 1999

TOWN OF FRYE ISLAND
BALANCE SHEET - GENERAL FUND
DECEMBER 31,

	1998
ASSETS:	
Cash	\$ 263,589
Receivable:	
Taxes	17,625
TOTAL ASSETS	\$ 281,214
LIABILITIES AND FUND EQUITY:	
Liabilities:	
Deferred Revenues	\$ 270,951
Accounts Payable	54
	271,005
Fund Equity:	
Fund Balance:	
Unreserved, Undesignated	10,209
TOTAL LIABILITIES AND FUND EQUITY	\$ 281,214

The Accompanying Notes are an Integral Part of these Statements.

TOWN OF FRYE ISLAND
STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
BUDGET BASIS
SIX MONTHS ENDED DECEMBER 31, 1998

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES:			
Taxes:			
Property	\$ 255,016	\$ 248,447	\$ (6,569)
Other:			
Interest:			
Bank	0	112	112
Taxes	0	1,161	1,161
Miscellaneous	0	144	144
	<u>0</u>	<u>1,417</u>	<u>1,417</u>
Charges for Services:			
Permits	11,500	2,629	(8,871)
Registrations	0	3,676	3,676
Other	8,500	18,637	10,137
	<u>20,000</u>	<u>24,942</u>	<u>4,942</u>
TOTAL REVENUES	<u>275,016</u>	<u>274,806</u>	<u>(210)</u>
EXPENDITURES:			
Administration	5,992	2,939	3,053
Assessor	0	2,400	(2,400)
Code Enforcement	5,800	246	5,554
Planning Board	1,000	0	1,000
Town Council	0	228	(228)
Appeals	1,000	75	925
Dispatch	1,500	0	1,500
Education	227,502	226,487	1,015
County Tax	32,222	32,222	0
TOTAL EXPENDITURES	<u>275,016</u>	<u>264,597</u>	<u>10,419</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ 0</u>	<u>\$ 10,209</u>	<u>\$ 10,209</u>

The Accompanying Notes are an Integral Part of these Statements.

TOWN OF FRYE ISLAND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1998

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Reporting Entity

Town of Frye Island was incorporated in July 1, 1998 and operates under a Town Meeting-Board of Selectmen form of Government. The Board consists of seven members elected by the registered voters for staggered three-year terms.

As further explained in note 7 to these financial statements, effective January 1, 1999, all the assets, liabilities and fund balance of Frye Island Municipal Services Corporation were transferred to the Town of Frye Island.

In evaluating the Town of Frye Island as a reporting entity, management has addressed all potential component units for which the Town may or may not be financially accountable and, as such, be includable within the Town's general purpose financial statements. In accordance with GASB Statement #14, the Town (the primary government) is financially accountable if it appoints a voting majority of the organizations governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefit to or impose specific financial burden on the Town. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's general purpose financial statements to be misleading or incomplete. Based on the application of these criteria, there are no other entities within the Town that should be included as part of these general purpose financial statements.

The accounting policies of the Town of Frye Island conform to generally accepted accounting principles as applicable to governmental units, except as indicated below. The following is a summary of the more significant policies:

Basis of Presentation

The accounts of the Town are organized on the basis of a fund and an account group, each of which is considered a separate accounting entity. The operation of the fund is accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, fund equities, revenues and expenditures. The fund is segregated for the purpose of carrying on a specific activity or attaining certain objectives in accordance with special regulations, restrictions or limitations in the financial statements. Amounts in the "Totals - Memorandum Only" columns represent a summation of the combined financial statement line items of the fund type and account group and is presented only to facilitate analysis.

TOWN OF FRYE ISLAND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1998

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

The following fund types and account groups are used:

Governmental Fund

General Fund - The general fund is the general operating fund. All general tax revenues and other receipts that are not allocated by law or contractual agreement to another fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges and the capital improvement costs that are not paid through other funds.

Account Groups

General Long-Term Debt Group of Accounts - This account group is established to account for the long-term debt that is backed by the Town of Frye Island's full faith and credit. At December 31, 1998, there was no outstanding debt balance.

General Fixed Assets Account Group - General fixed assets that have been acquired for general purposes have been recorded as expenditures in the fund making the expenditure. These expenditures are required to be capitalized at historical cost in the general fixed asset account group for accountability purposes. In accordance with practices followed by most municipal entities in the State, the Town of Frye Island does not maintain a record of its general fixed assets and, accordingly, a statement of general fixed assets, required by generally accepted accounting principles, is not included in this financial report.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Governmental funds, revenues and expenditures are accounted for using the modified accrual basis. Revenues are recognized in the accounting period in which they become available and measurable. For property taxes, available means collected in the current period or within sixty (60) days after the end of the current period. Property taxes due but not available within the required period were recorded in a deferred revenue account on the balance sheet. Licenses and permits, charges for services, fines and forfeits, and miscellaneous revenues are recorded as revenues when received in cash because they are generally not measurable until actually received. Expenditures for governmental fund types are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt which is recognized when paid.

TOWN OF FRYE ISLAND
NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 1998

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Accounting

Budgets are adopted for the general fund and formal budgetary integration is employed as a management control device during the six month period. A comparison of budget to actual is presented in the financial statements.

Inventories of Supplies

Inventories of supplies are considered to be expenditures at the time of purchase and are not included in the general fund balance sheet.

General Fixed Assets

The Town does not maintain a general fixed asset group of accounts. Expenditures for property and equipment are charged to departmental operations whenever such items are procured.

Estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets, liabilities, the disclosure of contingent liabilities, and the reported revenue and expenses.

Note 2 - DEPOSITS AND INVESTMENTS

Town of Frye Island's policy is to invest all available funds at the highest possible rates, in conformance with legal and administrative guidelines, while avoiding unreasonable risk. The funds are invested in savings and money market accounts coinciding with its cash needs during the six month period.

The deposits are categorized as follows to give an indication of the level of risk assumed at year end: Category 1 includes deposits covered by federal depository insurance or by collateral held by the Town or by the Town's agent in the Town's name; Category 2 includes uninsured deposits covered by collateral held by the pledging financing institution's trust department or agent in the Town's name; and Category 3 includes uninsured and uncollateralized deposits. ?

At December 31, 1998, cash and cash equivalents consisted of the following:

	Carrying <u>Amount</u>	Bank <u>Balance</u>	<u>#1</u>	<u>CATEGORY</u> <u>#2</u>	<u>#3</u>
Checking and Money Market	<u>263,589</u>	<u>263,944</u>	<u>200,000</u>	<u>0</u>	<u>63,944</u>
	<u>\$263,589</u>	<u>\$263,944</u>	<u>\$200,000</u>	<u>\$0</u>	<u>\$63,944</u>

TOWN OF FRYE ISLAND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1998

Note 3 - PROPERTY TAX

Town of Frye Island's property tax for the current six months was levied on the assessed value listed as of April 1, 1998. Assessed values are periodically established by the assessor at 100% of assumed market value. Each property must be reviewed no less than once every four years. The assessed value, upon which the levy for the six months ended December 31, 1998 was based, was \$30,001,800. Schedule 1 summarizes the 1998 levy.

Town of Frye Island is permitted by the laws of the State of Maine to levy taxes to 105% of its net budgeted expenditures for the related fiscal period. The amount raised in excess of 100% is referred to as overlay.

The 1998 property taxes were committed July 6, 1998, and have been recorded as revenues. The 1999 property taxes were levied November 1, 1998, and are due and payable January 1 and July 1, 1999. The payments collected in 1998 have been recorded as deferred revenues. The variance between actual property tax revenues and budgeted property tax revenues of \$6,589 (Exhibit 1-2) represents supplemental taxes of \$3,198 and deferred revenues of \$9,767.

Tax liens are placed on real property within twelve months following the tax commitment date if taxes are delinquent. The Town has the authority to foreclose on property eighteen months after the filing of the lien if tax liens and associated costs remain unpaid. In addition, the Town may bring a civil action for collection of unpaid personal property taxes.

Note 4 - SUBSEQUENT EVENT-TERMINATION OF EXISTENCE OF FRYE ISLAND MUNICIPAL SERVICES CORPORATION

In 1997, the 118th Legislature of the State of Maine passed a bill authorizing the separation and incorporation of Frye Island, subject to a referendum election. The Governor signed the bill into law on June 12, 1997. The referendum election, held October 14, 1997, was passed with a unanimous vote. The effective date of the new Town of Frye Island was set at July 1, 1998.

During the 1998 calendar year, Frye Island Municipal Services Corporation operated as usual. However, effective on January 1, 1999, all MSC assets and fund equity were transferred to, and the liabilities assumed by, the Town of Frye Island. Frye Island Municipal Services Corporation ceased to exist.

COMBINING AND INDIVIDUAL FUND STATEMENTS

These exhibits provide a more detailed view of the "general purpose financial statements" presented in the preceding subsection.

GENERAL FUND

The General Fund accounts for all revenues and expenditures which are not accounted for in other funds. Most governmental services are provided by the General Fund including public works, public safety, recreation, health and welfare, and general administrative services.

TOWN OF FRYE ISLAND
COMPARATIVE BALANCE SHEET - GENERAL FUND
DECEMBER 31,

	<u>1998</u>
ASSETS:	
Cash/Investments	\$ 263,589
Receivable:	
Taxes	<u>17,625</u>
TOTAL ASSETS	<u><u>\$ 281,214</u></u>
 LIABILITIES AND FUND BALANCES:	
Liabilities:	
Deferred Revenue	\$ 270,951
Accounts Payable	<u>54</u>
	<u>271,005</u>
Fund Balances:	
Unreserved:	
Undesignated	<u>10,209</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 281,214</u></u>

TOWN OF FRYE ISLAND
STATEMENT OF REVENUES, EXPENDITURES - BUDGET AND ACTUAL
AND CHANGES IN FUND BALANCE- GENERAL FUND
SIX MONTHS ENDED DECEMBER 31, 1998

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES:			
Taxes:			
Property	\$ 255,016	\$ 248,447	\$ (6,569)
Other:			
Interest:			
Bank	0	112	112
Taxes	0	1,161	1,161
Miscellaneous	0	144	144
	<u>0</u>	<u>1,417</u>	<u>1,417</u>
Charges for Services:			
Permits	11,500	2,629	(8,871)
Registrations	0	3,676	3,676
Other	0	75	75
	<u>11,500</u>	<u>6,380</u>	<u>(5,120)</u>
TOTAL REVENUES	<u>266,516</u>	<u>256,244</u>	<u>(10,272)</u>
EXPENDITURES:			
Administration	5,992	2,939	3,053
Assessor	0	2,400	(2,400)
Code Enforcement	5,800	246	5,554
Planning Board	1,000	0	1,000
Town Council	0	228	(228)
Appeals	1,000	75	925
Dispatch	1,500	0	1,500
Education	227,502	226,487	1,015
County Tax	32,222	32,222	0
TOTAL EXPENDITURES	<u>275,016</u>	<u>264,597</u>	<u>10,419</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(8,500)	(8,353)	147
OTHER FINANCING SOURCES (USES)			
Transfers from Frye Island MSC	<u>8,500</u>	<u>18,562</u>	<u>10,062</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>\$ 0</u>	10,209	<u>\$ 10,209</u>
FUND BALANCE - JULY 1, 1998		<u>0</u>	
FUND BALANCE - DECEMBER 31, 1998		<u>\$ 10,209</u>	

The following schedule is presented for purposes of additional analysis and is also not a required part of the general purpose financial statements of the Town of Frye Island. Such information in this schedules has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

TOWN OF FRYE ISLAND
VALUATION, ASSESSMENT AND COLLECTION OF TAXES
SIX MONTHS ENDED DECEMBER 31, 1998

VALUATION AND ASSESSMENT

Real Property	\$ 30,001,800
Tax Rate per Thousand	<u>8.50</u>
TAX COMMITMENT	<u><u>\$ 255,015</u></u>

APPROPRIATIONS

Municipal Functions	\$ 275,016
Overlay	<u>0</u>
	275,016
Less: Estimated Revenues	<u>20,000</u>
TAX COMMITMENT	<u><u>\$ 255,016</u></u>

COLLECTION OF 1998 TAXES

Original Commitment	\$ 255,016
Supplementals	<u>3,198</u>
	258,214
Less: Collections	<u>240,589</u>
BALANCE OUTSTANDING AT DECEMBER 31, 1998	<u><u>\$ 17,625</u></u>